

Questions and Answers Concerning Executive Order 2008-03

What gives the Governor the authority to issue a holdback?

Authorization and guidelines for issuing a holdback can be found in Idaho Code 67-3512A. This authority is limited to a temporary reduction of spending authority in order to bring spending into line with projected revenue. The Legislature is required to act on the holdback in order to make it permanent.

When is the holdback effective?

The Governor's Executive Order is in effect immediately upon his signature. Agencies have until October 6 to make the necessary adjustments to accommodate the changes in the statewide budget reporting system.

Why is the holdback being issued?

These steps are being taken to align spending authorization with new, lower revenue projections. The Legislature set the FY 2009 budget well within the limits of the revenue forecast issued by DFM in February 2008. Since that time, projected revenue has declined sharply as a result of changes in national state economic indicators.

How far has the projected revenue declined?

DFM announced a reduction in projected FY 2009 General Fund revenue in its August 2008 *Idaho Outlook* publication. The projected FY 2009 revenue was lowered from \$2,940,600,000 to \$2,766,300,000. That is a reduction of \$174,300,000 or 5.9-percent, leading to a projected General Fund shortfall in the current fiscal year.

What happened to the surplus?

While the General Fund did end fiscal year 2008 with over \$200 million on hand, almost all of this money had already been accounted for in the FY 2009 budget. In fact, less than \$50 million of this money was available "surplus" – not nearly enough to account for the significant drop in projected FY 2009 revenues.

Doesn't the state have a "rainy day" fund?

There are three main accounts established by the Legislature to address shortfalls in the General Fund. The largest is the Budget Stabilization Fund which has a current balance of over \$140.6 million. The current balance in the Public Education Stabilization Fund is just over \$118 million. Finally, there is over \$60.7 million in the Economic Recovery Fund. In addition, there are other reserve funds dedicated to specific areas of government outside the General Fund.

Why not use these “rainy day” funds now?

Each of the “rainy day” funds have specific statutes governing when and how it can be accessed. For example, the Governor’s authority to spend money from the Budget Stabilization Fund requires the declaration of a “major disaster.” The holdback will use an estimated \$14.1 million from the Public Education Stabilization Fund to offset withheld funding from the Public Schools budget (see question below).

Why not wait until the Legislature returns in January to take action?

Every day action is delayed the impact on state agencies is multiplied. A 1-percent holdback issued in January has twice the impact of the same action taken in July.

Date Issued	Holdback	Months remaining	Accumulated Impact
July (passed)	1-percent	12	1-percent
October (now)	1-percent	9	1.3-percent
January (session start)	1-percent	6	2-percent
April (session end)	1-percent	3	4-percent

In addition, by taking action on the 1-percent holdback now and requiring agencies to “reserve” additional money, the Governor has positioned the state to react to whatever economic uncertainties await it (see questions below).

Will the holdback impact funding for public schools?

No. Funding withheld from the public schools budget will be made up with monies from the Public Education Stabilization Fund. The Governor is grateful that the Legislature had the foresight to create this special “rainy day fund” during years of good economic conditions. The Governor has discussed this course of action with the Superintendent of Public Instruction on numerous occasions.

Will the holdback impact other education areas?

Yes. The Public Education Stabilization Fund does not cover revenue deficiencies in other education areas outside Public Schools (such as Higher Education, Professional-Technical Education, and others).

Will the holdback impact transportation funding?

No. The Transportation Department does not receive any money from the General Fund and therefore would not be subject to a holdback. The same is true of other agencies funded entirely from sources outside the General Fund. This includes, PERSI, Fish and Game, most regulatory boards and commissions, and others. All agencies not listed on the holdback table are exempt from the current holdback.

Can the holdback be rescinded if the economy improves?

Yes. Should economic conditions improve the Governor may withdraw the Executive Order. Likewise, the Legislature may adjust the holdback amount or rescind it entirely when it meets to review the action in January 2009.

What happens if the economy worsens?

If the state's economic condition continues to erode, further holdbacks may be necessary. To safeguard against this condition, the Governor is directing all agency administrators to "reserve" the monies identified in their 2.5-percent holdback plan until a clearer economic picture can be painted. While these funds are not being removed from agency budgets, directors have been asked to not spend the money until given an "all clear."

Can the implementation of the Grocery Tax Credit bill passed last year be delayed?

Yes. The bill passed by the 2008 Legislature to increase the grocery tax credit (HB 588) accomplishes the increased tax relief over a period of several years. The bill included two ways that this schedule could be delayed. The first is for both the House of Representatives and the Senate to pass a resolution requesting the Governor to issue an Executive Order delaying the implementation. The second allows the Governor to issue the Executive Order without the legislative resolution if two conditions are met. These are that a holdback of at least 1-percent be issued between July 1 and October 1 and that the holdback remain in effect on October 1. Of course, the Legislature has at any time the authority to amend this statute and modify these implementation provisions.

Today's Executive Order does not delay the implementation of the increased grocery tax credit. However, by meeting the two conditions outlined in the bill, the Governor's action leaves the option of a future delay open should it become necessary to do so.

What happens next?

Agencies have until October 6 to make the necessary adjustments to accommodate the changes in the statewide budget reporting system. DFM will review and approve these modifications as they take place. It is anticipated that the Governor's budget recommendation to the Legislature will include a request to make the holdback permanent. DFM will continue to monitor the state revenue picture between now and when the Legislature convenes on January 12.

Where can I get more information?

Budget materials, including a copy of today's Executive Order, the holdback tables associated with the Executive Order and holdback implementation guidelines are available under the "What's New" heading of the DFM webpage located at www.dfm.idaho.gov after 1:15pm on September 26.